chooses to use a CAP or LEC facilities for special access service unless there are specific, identifiable cost differences."[54] The Commission adopted this same requirement of neutrality when it incorporated switched access services into the expanded interconnection rules.[55] In adopting this neutrality requirement, the Commission realized that "absent even-handed treatment, nonrecurring reconfiguration charges could constitute a serious barrier to entry."[56]

Clearly, the extension of promotional NRC waivers to interconnectors is required under the Commission's rules. To ensure compliance with the Commission's rules, the Commission should establish unambiguously a LEC obligation to extend all promotional NRC waivers to comparable virtual interconnection services.[57] Specifically, the FCC should require that any newly-tariffed promotional offering for LEC special or switched access services must specify the comparable virtual interconnection services for which NRCs will also be waived. Clearly, waiver of DS1 or DS3 special access or switched transport installation NRCs must be matched with a waiver of nonrecurring charges for DS1 and DS3 cross-connects. Any promotional waivers for SONET-based services should also be matched by waivers of DS3 cross-connect NRCs. Any promotional waiver of NRCs associated with

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[54] *Expanded Interconnection with Local Telephone Company Facilities*, 7 FCC Rcd 7369, 7465 (1992) (*Special Access Reconsideration Order*).

[55] *Expanded Interconnection with Local Telephone Company Facilities*, 8 FCC Rcd 7374, 7439 (1993) (*Switched Access Order*).

[56] *Id.* at 7438.

[57] The Commission should also apply this rule to all LECs that provide physical collocation arrangements.

LEC voice grade, DDS or fractional T-1 services should include a waiver of NRCs for voice grade cross-connects or their equivalents.

Finally, it is possible that LECs will initiate promotional offerings that do involve reduced recurring charges for a limited period of time. It is necessary for the Commission to anticipate the equitable treatment of such promotions as well. MFS submits that the most efficient way to address this issue is to require LECs to file full cost support for such promotions, even if they fall within the approved Price Cap rate ranges. The cost support data should mirror the data required to be submitted with the LECs' Direct Cases in the instant proceeding, and should identify disaggregated investment, annual cost factors, and rate/cost ratios. If such promotions raise competitive concerns regarding interconnected parties, they may be addressed in the normal tariff review process when such filings are made.

IV. THE COMMISSION SHOULD PROHIBIT LECS FROM RECOVERING OVERHEADS THROUGH THEIR NONRECURRING CHARGES

In its *Designation Order*, the Commission specifically ordered Bell Atlantic, Southwestern Bell, U S West and any other LEC intending to recover overhead loadings from nonrecurring charges associated with virtual collocation to provide data on this issue. In their Direct Cases, Ameritech, Bell Atlantic, BellSouth, Southwestern Bell and U S West have disclosed that their virtual interconnection nonrecurring charges include overhead loadings.[58] Most of these LECs further concede, however, that they do not recover

[58] Ameritech at 8-9; Bell Atlantic at 12; BellSouth at 4; Southwestern at 9; U S West at 12.

overheads in nonrecurring charges for their special access or switched transport services,[59] but rather recover such costs through their recurring rates. Significantly, at least one LEC, Cincinnati Bell, states that it does not recover overhead loadings from its virtual interconnection nonrecurring charges.[60]

The Commission also directed the LECs to identify the term of service upon which the assignment of overhead loadings to nonrecurring charges is based. In response, a majority of the LECs state that their nonrecurring charges are not premised on any term assumptions, and contend that term of service is irrelevant. Consequently, they argue that no provision for refunds for overhead contributions is necessary because they will incur the full costs whether or not the interconnector terminates the service prematurely.[61]

The LECs' position on refusing to tariff a refund provision for overheads is unsupportable. The LECs incorporate overheads into nonrecurring charges by application of an *annual* cost factor. This factor assumes that maintenance and administrative costs will be incurred on a regular basis throughout the year. In fact, the LEC position is internally inconsistent: either they do not apply annual cost factors and incur all nonrecurring costs "up front" -- in which case no refund mechanism is necessary, or they require interconnectors to make advance payments of annualized costs -- in which case provisions for a refund upon premature termination of the service must be made.

59/ *Cf.* Bell Atlantic states that it recovers overheads through loadings on its special access installation NRCs. Bell Atlantic at 11. U S West asserts that it recovers "some" overhead through loadings on some special access nonrecurring charges, but provides no data to substantiate this claim. U S West at 12-14.

60/ Cincinnati Bell, App. A at 2.

61/ Ameritech at 9-10; BellSouth at 4; Southwestern at 10-12.

The Commission should not permit the LECs to have it both ways. The Commission should prohibit the LECs from recovering overheads in their nonrecurring charges for virtual collocation service. Prohibiting the recovery of overheads in the virtual collocation nonrecurring charges will both protect interconnectors against excessive NRCs and will ensure that LECs use the same pricing standards for NRCs paid by interconnectors and customers of special access and switched transport services.[62]

Southwestern Bell takes this discriminatory method of cost recovery one step further and argues that it cannot reuse collocation equipment, and thus it must recover all nonrecurring charges in its overheads. Southwestern Bell's assertion conveniently arises from its refusal to: 1) agree to lease or purchase equipment from interconnectors for a nominal sum (known as the "$1 deal"); or 2) make any provisions to permit interconnectors to repurchase the interconnection equipment upon terminating the virtual collocation arrangement.

Southwestern Bell's assertions that it cannot reuse interconnection equipment are nothing short of outrageous. Southwestern Bell is the only virtual interconnection LEC in the country that has refused to accept the "$1 deal."[63] All the remaining LECs purchase or lease equipment for a nominal sum from the interconnector, and agree that the interconnector may reclaim the equipment upon termination of the interconnection

---

[62] Absent such action, the Commission should, at a minimum, order LECs to refund a pro rata portion of the overhead loadings associated with the NRCs if an interconnector terminates its arrangement prematurely.

[63] Initially Cincinnati Bell and U S West also refused to endorse the "$1 deal," but both LECs subsequently have expressed their willingness to do so.

arrangement. Conversely, if Southwestern Bell persists in refusing the "$1 deal," it could remedy the reuse problem simply by allowing the interconnector to move the equipment to another location, or to take delivery of the equipment upon termination of the arrangement.[64] Instead, Southwestern Bell is attempting to make the interconnector pay the full capital cost of the equipment (including grossly excessive loadings) up front, and makes no provision to allow the interconnector to retain use of the equipment following termination of the interconnection arrangement. Indeed, Southwestern Bell then attempts to exploit these wholly unreasonable terms to justify excessive nonrecurring charges through the application of overhead loadings.

The Commission also should require Southwestern Bell to tariff provisions that would allow an interconnector to realize the full value and benefit of the equipment it purchases. Either Southwestern Bell should be required to offer interconnectors a right of first refusal to purchase the interconnected equipment for a nominal sum at the termination of its interconnection arrangement, or Southwestern Bell should be required to provide a pro rata refund of the undepreciated value of the equipment to the interconnector. Failure to impose such provisions upon Southwestern Bell would result in its unjust enrichment.[65]

---

[64] Even without taking these actions, Southwestern Bell's argument that it cannot reuse interconnection equipment is wholly unsupported. Indeed, as explained *infra*, MFS purposely chooses the same interconnection equipment that LECs use in their central offices in order to avoid training costs and ensure competence among LEC technicians. Such decisions by interconnectors ensure that Southwestern Bell would be able to reuse the equipment elsewhere in its network.

[65] In the alternative, at a minimum, customers should be permitted to have the same equipment moved to another interconnection site for their continued use.

V. CONCLUSION

For the reasons discussed above, the public record in the instant docketed proceeding and in CC Docket No. 91-141 clearly establishes that LECs have employed excessive and unreasonably discriminatory loading factors in establishing their rates and charges for virtual interconnection, and have thereby unreasonably inflated the cost of that bottleneck service to aspiring competitors. The Commission should therefore prescribe reductions in the LECs' virtual interconnection rates and charges, and should compel immediate refunds -- with interest -- to interconnected parties that have paid excessive rates to date. In addition, the Commission should impose sanctions upon Bell Atlantic for its flagrant and unexcused refusal to comply with the direct orders of the Commission.

Respectfully submitted,

Andrew D. Lipman

Cindy Z. Schonhaut
Vice President
Government Affairs
MFS Communications Company, Inc.
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007
(202) 424-7709

Andrew D. Lipman
Jonathan E. Canis

SWIDLER & BERLIN, Chartered
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007
(202) 424-7500

Attorneys for
MFS COMMUNICATIONS COMPANY, INC.

Dated: April 4, 1995

138228.1

CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of April 1995, copies of the foregoing MFS COMMUNICATIONS COMPANY, INC. OPPOSITION TO DIRECT CASES IN CC DOCKET NO. 94-97, PHASE I, were sent via Hand-Delivery* or First-Class Mail, U.S. postage prepaid, to the parties on the attached service list.

Sonja L. Sykes-Minor

135331.1

KATHLEEN M.H. WALLMAN, CHIEF*
COMMON CARRIER BUREAU
FEDERAL COMMUNICATIONS
COMMISSION
1919 M STREET, N.W.
ROOM 500
WASHINGTON, D.C. 20554

GERALDINE MATISE, ACTING CHIEF*
TARIFF DIVISION
FEDERAL COMMUNICATIONS
COMMISSION
1919 M STREET, N.W.
ROOM 518
WASHINGTON, D.C. 20554

JAMES D. SCHLICHTING, CHIEF*
POLICY & PROGRAM PLANNING DIVISION
COMMON CARRIER BUREAU
FEDERAL COMMUNICATIONS
COMMISSION
1919 M STREET, N.W.
ROOM 544
WASHINGTON, D.C. 20554

INTERNATIONAL TRANSCRIPTION
SERVICES*
TARIFF DIVISION
FEDERAL COMMUNICATIONS
COMMISSION
1919 M STREET, N.W.
ROOM 246
WASHINGTON, D.C. 20554

GAIL POLIVY
GTE
1850 M STREET, N.W.
SUITE 1200
WASHINGTON, D.C. 20036

WILLIAM D. BASKETT III
THOMAS E. TAYLOR
DAVID S. BENCE
CINCINNATI BELL TELEPHONE
2500 PNC CENTER
201 EAST FIFTH STREET
CINCINNATI, OHIO 45201-2301

JAY C. KEITHLEY
UNITED AND CENTRAL TELEPHONE
COMPANIES
1850 M STREET, N.W.
SUITE 1100
WASHINGTON, D.C. 20036

W. RICHARD MORRIS
UNITED AND CENTRAL TELEPHONE
COMPANIES
P.O. BOX 11315
KANSAS CITY, MO 64112

ROBERT M. LYNCH
DURWARD D. DUPRE
THOMAS A. PAJDA
SOUTHWESTERN BELL TELEPHONE
COMPANY
ONE BELL CENTER
SUITE 3520
ST. LOUIS, MISSOURI 63101

KATHRYN MARIE KRAUSE
U S WEST COMMUNICATIONS, INC.
1020 19TH STREET, N.W. SUITE 700
WASHINGTON, D.C. 20036

M. ROBERT SUTHERLAND
RICHARD M. SBARATTA
HELEN A. SHOCKEY
BELLSOUTH TELECOMMUNICATIONS, INC.
4300 SOUTHERN BELL CENTER
675 WEST PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30375

LAWRENCE W. KATZ
BELL ATLANTIC TELEPHONE COMPANIES
1320 NORTH COURT HOUSE ROAD
EIGHTH FLOOR
ARLINGTON, VIRGINIA 22201

MICHAEL S. PABIAN
AMERITECH
ROOM 4H82
2000 WEST AMERITECH CENTER DRIVE
HOFFMAN ESTATES, IL 60196-1025

KATHIE MIKUCKI
ADC
4900 W. 78TH STREET
MINNEAPOLIS, MN 55435

PIPER KENT-MARSHALL
AT&T
4450 ROSEWOOD DRIVE
ROM 5460
PLEASANTON, CA 94588-3050

ALFRED LIPPERINI
NEC AMERICA, INC.
14040 PARK CENTER ROAD
HERNDON, VA 22071

DAVE GRANNELL
RELIANCE COM/TEC
LAW DEPARTMENT
6065 PARKLAND BOULEVARD
CLEVELAND, OH 44124-6106

DENNIS KRAFT
ALCATEL NETWORK SYSTEMS, INC.
1225 NORTH ALMA ROAD
RICHARDSON, TEXAS 75081

BOB ZUCCAIRE
FUJITSU NETWORK TRASMISSION
SYSTEMS, INC.
2801 TELCOM PARKWAY
RICHARDSON, TEXAS 75082

PAUL DEJONGH
NORTHERN TELECOM
4001 EAST CHAPEL HILL - NELSON HIGHWAY
RESEARCH TRIANGLE PARK, NC 27709

DON GUTZMER
TELLABS
4951 INDIANA AVENUE
LISLE, IL 60532

DON SUSSMAN
REGULATORY ANALYST
MCI TELECOMMUNICATIONS CORPORATION
1801 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006

RICHARD J. METZGER
COUNSEL FOR ALTS
1200 19TH STREET, N.W.
SUITE 607
WASHINGTON, D.C. 20036

BRIAN CONBOY
JOHN L. MCGREW
MELISSA E. NEWMAN
WILKIE FARR & GALLAGHER
ATTORNEYS FOR TIME WARNER
HOLDINGS, INC.
THREE LAFAYETTE CENTRE
1155 21ST STREET, N.W., SUITE 600
WASHINGTON, D.C. 20036

J. MANNING LEE
TELEPORT COMMUNICATIONS
GROUP, INC.
2 TELEPORT DRIVE, SUITE 300
STATEN ISLAND, NY 10311

APPENDIX A

EXCERPT FROM AMERITECH TRANSMITTAL NO. 863

2000 West Ameritech Center Drive
4G62
Hoffman Estates IL 60196-1025
Office 708 248-3332
Fax 708 248-3890

Ameritech

Kristin U. Shulman
Director
Federal Regulatory Planning and Policy

PUBLIC REFERENCE COPY

February 10, 1995

Transmittal No. 863

Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Attention: Common Carrier Bureau

The accompanying tariff material, issued on behalf of Ameritech and bearing Tariff F.C.C. No. 2, Access Service, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material, scheduled to become effective February 13, 1995 and March 27, 1995, consists of revised tariff pages as indicated on the following revised check sheets.

Tariff F.C.C. No.	Check Sheet Nos.
2	784th Revised Page 1
	785th Revised Page 1
	134th Revised Page 1.5
	100th Revised Page 1.6
	101st Revised Page 1.6
	55th Revised Page 1.9

With this filing Ameritech proposes new contract periods to its Optional Payment Plan in F.C.C. No. 2, Section. 7. This new service offering will allow for 24 and 48 month payment arrangements providing customers with more flexibility in provisioning their networks.

Cost support for the DS1 and DS3 portion of this filing is being submitted under separate cover requesting that the information be treated as confidential. All other support material pursuant to Section 61.49 of the Federal Communications Commission's Rules and Regulations is submitted herewith.

Ratio Analysis
Ameritech Base Rate Service

LOCAL DISTRIBUTION CHANNEL
Zone 1, 2, 3

	24 Month	48 Month
Investment	$2,018.37	$2,018.37
Total Annual Cost	$573.34	$573.34
Total Monthly Cost	$47.78	$47.78
Monthly Rate	$76.36	$68.47
Annual Cost/Investment	0.28	0.28
Monthly Cost/Rate	0.63	0.70

Ratio Analysis
Ameritech OC-3 Service

LOCAL DISTRIBUTION CHANNEL

	24 Month	48 Month
Investment	$15,914.02	$15,914.02
Total Annual Cost	$3,092.34	$3,092.34
Total Monthly Cost	$291.75	$285.64
Monthly Rate	$1,527.00	$1,253.00
Annual Cost/Investment	0.19	0.19
Monthly Cost/Rate	0.19	0.23

CHANNEL MILEAGE TERMINATION

	24 Month	48 Month
Investment	$14,374.28	$14,374.28
Total Annual Cost	$3,923.66	$3,923.66
Total Monthly Cost	$337.09	$335.71
Monthly Rate	$446.00	$385.00
Annual Cost/Investment	0.27	0.27
Monthly Cost/Rate	0.76	0.87

APPENDIX B

EXCERPT FROM AMERITECH TRANSMITTAL NO. 856

Ameritech

Kristin U. Shulman
Director
Federal Regulatory Planning

PUBLIC REF

January 6, 1995

Transmittal No. 856

Secretary
Federal Communications Commission
1919 M. Street, N.W.
Washington, D.C. 20554

Attention: Common Carrier Bureau

The accompanying tariff material, issued on behalf of Ameritech and bearing Tariff F.C.C. No. 2, Access Service, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material, scheduled to become effective February 20,1995, consists of a revised tariff page as indicated on the following revised check sheets.

Tariff F.C.C. No.	Check Sheet Nos.
2	777th Revised Page 1
	69th Revised Page 1.7

With this filing Ameritech proposes to introduce an Ameritech OC-12 site diversity option at the Toledo, Ohio TOLDOH21 Central Office. This arrangement will allow all originating and terminating OC-12 traffic to be routed from the Toledo, Ohio serving wire center to the Fostoria, Ohio FSTAOH43 serving wire center in case of a failure at the customer's Toldeo, Ohio premises. This service is being proposed on an individual case basis (ICB) because it is unique and designed to meet the requirements of one customer in Toledo, Ohio.

Support material pursuant to Section 61.38 of the Federal Communications Commission's Rules and Regulations is submitted herewith.

AMERITECH - OHIO
SITE DIVERISTY - OC-12
SITE DIVERSITY CAPABILITY

ESTIMATED INVESTMENTS:		
Recoverable Material Cost	$ 10,901.68	
Non-Rec Material Cost	0	
Installation Cost	$ 2,270.97	
TOTAL	$ 13,172.65	
ESTIMATED RECURRING COSTS:		
Depreciation	$ 1,705.38	
Cost of Money	739.06	
Income Tax	273.13	
Maintenance	170.45	
Ad Valorem Tax	219.87	
TOTAL ANNUAL COST:	$ 3,107.89	
SUB-TOTAL MONTHLY COST:	$ 258.99	
MONTHLY GROSS REVENUE TAX:	13.30	
TOTAL DIRECT MONTHLY COST:	$ 272.29	
Annual Direct Cost to Direct Investment Ratio		0.2291
Monthly Cost $ 272.29 to Monthly Rate $ 280.00 Ratio		0.9725

APPENDIX C

EXCERPT FROM BELL ATLANTIC TRANSMITTAL NO. 696

Bell Atlantic

Bell Atlantic Network Services, Inc.
One Bell Atlantic Plaza
1310 North Court House Road
4th Floor
Arlington, Virginia 22201
703 974-5995

Michael R. McCullough
Director, Rates & Tariffs
External Affairs

September 22, 1994

Transmittal No. 696

Secretary
Federal Communications Commission
Washington, D.C. 20554

Attention: Common Carrier Bureau

The accompanying tariff material, issued by The Bell Atlantic Telephone Companies and bearing Tariff F.C.C. No. 1, Access Service, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material, filed on forty-five days' notice, is scheduled to become effective November 6, 1994 and consists of tariff pages as indicated on the following check sheets:

Tariff F.C.C. No. 1	Check Sheet Revision No.
	670th Revised Page 1
	42nd Revised Page 1.10

This filing establishes rates and charges for Specialized Facilities and Arrangements to be provided on an individual case basis (ICB) to meet specific and unique needs of Corestates Financial Corporation. This case is restricted to the individual customer. A private network of Central Office multiplexers and 2B1Q transport facilities is provided.

Support information as specified in Section 61.38 of the Commission's Rules is included with this filing.

We have enclosed a check in the amount of $565.00 in accordance with the fee program procedures.

1. INTRODUCTION

This section outlines compliance with Section 61.38 of the Commission's Rules which applies to this filing because Bell Atlantic is a dominant carrier. Section 61.38 provides the guidelines for cost support when filing new services excluded from price cap regulation.

2. COMPLIANCE WITH SECTION 61.38(b)

Explanation and data supporting either changes or new tariff offerings:

Service Description

Bell Atlantic is providing a specialized arrangement for Corestates Financial Corporation for the provision of a private interstate network in New Jersey. The network consists of central office multiplexers and branch office connections in conjunction with Special Access services from Section 7 of Bell Atlantic's Tariff F.C.C. No. 1. 155 branch office locations will be served by five central office hubs -- Camden, Hamilton Square, Red Bank, New Brunswick, and Plainfield. All interfaces between the network and the customer's equipment are standard, published interfaces. The customer has agreed to a five-year term.

Reason for this Filing

Bell Atlantic is making this filing pursuant to the Communications Act of 1934, as amended, in order to provide this configuration to Corestates. This filing is being made in compliance with the regulations within the Bell Atlantic Tariff F.C.C. No. 1, Access Service.

Basis of Ratemaking

The customer has agreed to pay the charges for this service through a recurring monthly rate.

The nonrecurring costs have been restated as an equivalent monthly amount per branch connection and are included in the monthly recurring rate. The costs for case preparation includes expenses incurred to configure, engineer, and prepare cost support for this service and was developed by multiplying the estimated staff hours required by the appropriate labor rates. Case preparation costs also include an increment to cover tariff preparation and filing fee expenses. The nonrecurring costs also include nonreusable investment and associated margin.

BELL ATLANTIC WORKPAPER 1

CORESTATES

LINE	CATEGORY		AMOUNT
	RECURRING COSTS		
1.	Investment		$878,163.00
2.	Annual Capital Costs		$184,885.00
3.	Annual Operating Expenses		$114,199.00
4.	Annual Direct Costs	L2 + L3	$299,084.00
5.	Margin		$185,125.24
6.	Annual Total	L4 + L5	$484,209.24
7.	Total per Circuit per Month	L6 / 155 ckts/ 12 months	$260.33
8.	Per Circuit NRC incl. as Monthly Amt.	L18	$49.67
9.	Monthly Rate	L7 + L8	$310.00
	NONRECURRING COSTS		
10.	Tariff Preparation and Filing Fee		$799.28
11.	Custom Business Services Expenses		$491.00
12.	Network Engineering		$8,616.00
13.	Total Case Preparation	L10 + L11 + L12	$9,906.28
14.	Nonreusable Capital		$208,802.00
15.	Margin		$136,520.58
16.	Total	L13 + L14 + L15	$355,228.86
17.	Nonrecurring per circuit	L16 / 155	$2,291.80
18.	Restated as monthly recurring per circuit		$49.67
	ANNUAL COSTS AND REVENUES		
19.	ANNUAL COSTS	L4 + L13 + L14	$517,792
20.	ANNUAL REVENUES	L9 * 155 * 12 MONTHS	$576,596

APPENDIX D

EXCERPT FROM BELL ATLANTIC TRANSMITTAL NO. 749

Bell Atlantic

Bell Atlantic Network Services, Inc.
One Bell Atlantic Plaza
1310 North Court House Road
4th Floor
Arlington, Virginia 22201
703 974-5995
FAX 703 974-0780

Michael R. McCullough
Director, Rates & Tariffs
External Affairs

February 23, 1995

Transmittal No. 749

William F. Caton
Acting Secretary
Federal Communications Commission
Washington, D.C. 20554

Attention: Common Carrier Bureau

The accompanying tariff material, issued by The Bell Atlantic Telephone Companies and bearing Tariff F.C.C. No. 1, Access Service, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material, filed on forty-five days' notice, is scheduled to become effective April 9, 1995 and consists of tariff pages as indicated on the following check sheets:

Tariff F.C.C. No. 1	Check Sheet Revision No.
	716th Revised Page 1
	54th Revised Page 1.12

With this filing, Bell Atlantic proposes rate revisions to its Federal Telecommunications Access Service (FTAS) offering. FTAS terms specify that certain rates in Section 17 are to be maintained at a discounted level below the Special Access rates in Section 7. This filing revises the FTAS rates to reflect Section 7 rate changes in Bell Atlantic's Transmittal No. 673 and proposed rate changes in Bell Atlantic's Transmittal No. 747 which was filed on February 16, 1995 with a proposed effective date of March 2, 1995.

Support information as specified in Section 61.38 of the Commission's Rules is included with this filing.

SECTION 3

COSTS, DEMAND, RATES, and REVENUES

Cost Development

Bell Atlantic performed cost studies to determine the costs for each service included in FTAS. The unit costs are shown on Workpaper 1.

Demand Forecast

The annual demand forecast for FTAS rates is shown on Workpaper 1. The forecast is based on 1994 demand.

Proposed Rates

The proposed monthly rates for FTAS are based on the discount guidelines in Section 17.3.A.3. However, notwithstanding the discount levels in Section 17, new rates calculated pursuant to the discount table will not be set below cost.

Revenue Forecast

The FTAS projected revenues were calculated by multiplying the proposed rates by the projected demand. Workpaper 1 contains the projections.

FTAS RATE CHANGES

RATE ELEMENT	TARIFF FCC NO. 1, SECTION 7 RATE* A	PROPOSED FTAS RATE B	FTAS DISCOUNT C	UNIT COST D	DEMAND E	COSTS F=D*E	REVENUES G=B*E
FTAS RATE ELEMENTS							
Channel Termination – monthly recurring							
Voice Grade –2 wire	$25.00	$23.75	5%	$21.00	1,971	$41,391	$46,811
Voice Grade – 4 wire	$50.00	$47.50	5%	$30.00	17,605	$528,150	$836,238

* Tariff FCC No. 1, Section 7 rates as proposed in Transmittal No. 747